

COMMONWEALTH OF KENTUCKY
BEFORE THE PUBLIC SERVICE COMMISSION

In the Matter of:

ELECTRONIC APPLICATION OF BRACKEN)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2021-00415
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

NOTICE OF FILING OF COMMISSION STAFF'S REPORT

Notice is hereby given that, in accordance with the Commission's Order of February 17, 2022, the attached report containing the findings of Commission Staff regarding the Applicant's proposed rate adjustment has been filed in the record of the above-styled proceeding. Pursuant to the Commission's February 17, 2022 Order, Bracken County Water District (Bracken District) is required to file written comments regarding the findings of Commission Staff no later than 14 days from the date of this report. The Commission directs Bracken District to the Commission's July 22, 2021 Order in Case No. 2020-00085¹ regarding filings with the Commission.



Linda C. Bridwell, PE
Executive Director
Public Service Commission
P.O. Box 615
Frankfort, KY 40602

DATED JUN 02 2022

cc: Parties of Record

¹ Case No. 2020-00085, *Electronic Emergency Docket Related to the Novel Coronavirus COVID-19* (Ky. PSC July 22, 2021), Order (in which the Commission ordered that for case filings made on and after March 16, 2020, filers are NOT required to file the original physical copies of the filings required by 807 KAR 5:001, Section 8).

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ELECTRONIC APPLICATION OF BRACKEN)	CASE NO.
COUNTY WATER DISTRICT FOR A RATE)	2021-00415
ADJUSTMENT PURSUANT TO 807 KAR 5:076)	

COMMISSION STAFF'S REPORT ON
BRACKEN COUNTY WATER DISTRICT

Bracken County Water District (Bracken District) is a water utility organized pursuant to KRS Chapter 74 that owns and operates a water distribution system through which it provides retail water service to approximately 2,626 residential customers, 18 commercial customers, and 3 wholesale customers that reside in Bracken, Mason, Pendleton, and Robertson counties, Kentucky.¹ On January 27, 2022, Bracken District filed an application with the Commission requesting to adjust its water rates pursuant to 807 KAR 5:076. The application was filed pursuant to the Commission's Order in Case No. 2020-00271.² Bracken District's last base rate increase was in Case No. 2010-00184.³ To ensure the orderly review of the application, the Commission established a

¹ *Annual Report of Bracken District to the Public Service Commission for the Calendar Year Ended December 31, 2020* (2020 Annual Report) at 12 and 49.

² Case No. 2020-00271, *Electronic Application of Bracken County Water District for the Issuance of a Certificate of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to the Provisions of KRS 278.020, KRS 278.300, and 807 KAR 5:001* (Ky. PSC Jan. 27, 2021) at 6, ordering paragraph 13.

³ Case No. 2010-00184, *Application of Bracken County Water District for an Adjustment of Water Rates* (Ky. PSC Aug. 10, 2010).

procedural schedule by Order dated February 17, 2022. Bracken District responded to one discovery request from Commission Staff.

WATER LOSS

Pursuant to 807 KAR 5:066, Section (6)3, water loss is limited to 15 percent for ratemaking purposes. Commission Staff notes that in Bracken District’s 2020 Annual Report, a water loss of 15.99 percent was reported.⁴ At 15.99 percent water loss, the total annual cost to Bracken District is \$68,513.⁵ The total annual cost to Bracken District for water loss above 15 percent is \$14,472 as explained in adjustment (G) below.

DISCUSSION

To comply with the requirements of 807 KAR 5:076, Section 9,⁶ Bracken District used the calendar year ended December 31, 2020, as the basis for its application. Using the Debt Service Coverage (DSC) method and its pro forma test-year operations, Bracken District determined that a revenue increase of \$254,349, or 15.00 percent over test-year

⁴ Annual Report at 57-58.

⁵

Gallons Purchased in 2020	164,620,033
Less: Gallons Sold in 2020	(135,354,000)
Other Water Used	(2,951,000)
 Total Water Loss	 26,315,033
Times: \$2.336 per 1,000 gallons	2.336
Times: \$0.00026758	0.00026758
 Total Cost of Water Loss	 \$ 68,513

⁶ The reasonableness of the proposed rates shall be determined using a 12-month historical test period, adjusted for known and measurable changes, that coincides with the reporting period of the applicant’s annual report for the immediate past year.

normalized revenues of \$1,696,045, was warranted⁷ as shown in the table below. Bracken District proposed to adjust its rates in two phases.⁸ The proposed rates requested by Bracken District for Phase 1 would increase the residential monthly bill of a typical residential customer using 3,770 gallons per month by \$3.51 from \$46.74 to \$50.28, or approximately 7.57 percent. The proposed rates requested by Bracken District for Phase 2 would increase the residential monthly bill of a typical residential customer using 3,770 gallons per month by \$3.65 from \$50.28 to \$53.93, or approximately 7.26 percent over Phase 1 rates. The cumulative effect of both increases as proposed would be 15.38 percent. Bracken District also proposed a two-phase increase to its wholesale water rate. Phase 1 rates would increase the average monthly bill of 642,650 gallons from \$2,609.16 to \$2,801.95, an increase of \$192.79, or 7.39 percent. Phase 2 rates would increase the same average monthly bill from \$2,801.95 to \$3,001.18, and increase of \$199.23, or 7.11 percent over the Phase 1 rate. The cumulative effect of both increases to the wholesale rate would be 15.02 percent.

⁷ Application, Exhibit D.

⁸ Application, Exhibit L, Customer Notice.

Pro Forma Operating Expenses	\$1,333,092
Plus: Average Annual Principal and Interest Payments	590,098
Additional Working Capital	<u>118,020</u>
Overall Revenue Requirement	2,041,210
Less: Other Operating Revenue	(44,156)
Interest Income	(39,194)
Nonutility Income	<u>(7,466)</u>
Revenue Required from Rates	1,950,394
Less: Pro Forma Present Rate Service Revenues	<u>(1,696,045)</u>
Required Revenue Increase	<u>\$ 254,349</u>
Percentage Increase	<u>15.00%</u>

To determine the reasonableness of the rates requested by Bracken District, Commission Staff performed a limited financial review of Bracken District's test-year operations. The scope of Commission Staff's review was limited to determining whether operations reported for the test year were representative of normal operations. Known and measurable⁹ changes to test-year operations were identified and adjustments made when their effects were deemed material. Insignificant and immaterial discrepancies were not necessarily pursued or addressed.

⁹ Commission regulation 807 KAR 5:076, Section 9 sets the standard for the determination of the reasonableness of proposed rates and states, in pertinent part, that the test period shall be "adjusted for known and measurable changes." See also Case No. 2001-00211, *The Application of Hardin County Water District No. 1 for (1) Issuance of Certificate of Public Convenience and Necessity; (2) Authorization to Borrow Funds and to Issue its Evidence of Indebtedness Therefore; (3) Authority to Adjust Rates; and (4) Approval to Revise and Adjust Tariff* (Ky. PSC Mar. 1, 2002); Case No. 2002-00105, *Application of Northern Kentucky Water District for (A) an Adjustment of Rates; (B) a Certificate of Public Convenience and Necessity for Improvements to Water Facilities if Necessary; and (C) Issuance of Bonds* (Ky. PSC June 25, 2003); Case No. 2017-00417, *Electronic Proposed Adjustment of the Wholesale Water Service Rates of Lebanon Water Works* (Ky. PSC July 12, 2018).

Commission Staff's recommendations are summarized in this report. Ariel Miller reviewed the calculation of Bracken District's Overall Revenue Requirement. Jason Green reviewed Bracken District's reported revenues and rate design.

SUMMARY OF FINDINGS

1. Overall Revenue Requirement and Required Revenue Increase. By applying the Debt Service Coverage (DSC) method, as generally accepted by the Commission, Commission Staff found that Bracken District's required revenue from water sales is \$2,012,567 to meet the Overall Revenue Requirement of \$2,065,468 and that a \$341,659 revenue increase, or 20.45 percent, to pro forma present rate revenues of \$1,670,908 is necessary to generate the Overall Revenue Requirement.

2. Monthly Water Service Rates. Based upon the revenue requirement, Bracken District proposed to increase all of its monthly retail water service rates evenly across the board. Bracken District has not performed a cost of service study (COSS) since Case No. 2010-00184.¹⁰ Bracken District stated that it did not complete a COSS at this time, as there has not been any material change in the water system to warrant a COSS.¹¹

The Commission has previously found that the allocation of a revenue adjustment evenly across the board to a utility's rate design is appropriate when there has been no evidence entered into the record demonstrating that this method is unreasonable and in the absence of a COSS. Finding no such evidence in this case, Commission Staff

¹⁰ See Commission Case No. 2010-00184.

¹¹ Bracken District's Response to Commission Staff's First Request for Information (filed Feb. 24, 2022) (Response to Staff's First Request), Item A.1.b.

followed the method proposed by Bracken District and allocated the \$341,603 revenue increase across the board to Bracken District's monthly retail water service rates.

Bracken District requested a two-year rate phase-in of its proposed rate increase based on the principle of gradualism. The Phase 2 rates would become effective one year after the implementation of the Phase 1 rates. The Phase 1 rates were calculated to generate approximately half of the total required increase in revenue. As a measure to reduce rate shock to its customers, Commission Staff agrees with Bracken District's phase-in approach and has calculated the monthly service rates to follow this methodology.

The rates set forth in the Appendix to this report are based upon the revenue requirement, as calculated by Commission Staff, and will produce sufficient revenues from water sales to recover the \$2,012,567 Revenue Required from Water Sales, an approximate 20.45 percent increase. The rates for Phase 1 would increase the residential monthly bill of a typical residential customer using 3,770 gallons per month by \$4.85 from \$46.74 to \$51.59, or approximately 10.38 percent. The rates for Phase 2 would increase the residential monthly bill of a typical residential customer using 3,770 gallons per month by \$4.72 from \$51.59 to \$56.31, or approximately 9.15 percent over Phase 1 rates. The wholesale rate for Phase 1 would increase the wholesale monthly bill of a customer using 642,650 gallons per month by \$263.49 from \$2,609.16 to \$2,872.65, or approximately 10.10 percent. The wholesale rate for Phase 2 would increase the wholesale monthly bill of a customer using 642,650 gallons per month by \$257.06 from \$2,872.65 to \$3,129.71, or approximately 8.95 percent. The cumulative effect of both increases as proposed would be 20.47 percent.

3. Nonrecurring Charges. Following the Commission’s recent decisions,¹² Commission Staff has reviewed Bracken District’s Nonrecurring Charges. The Commission found that because district personnel are currently paid during normal business hours, estimated labor costs previously included in determining the amount of Nonrecurring Charges should be eliminated. Bracken District provided the cost justification for the Nonrecurring Charges.¹³ Commission Staff reviewed the cost justification information provided by Bracken District and have adjusted these charges by removing Field Labor Costs and Office/Clerical Labor Costs. Such adjustments result in the following revised Nonrecurring Charges:

<u>Nonrecurring Charge</u>	<u>Current Charge</u>	<u>Revised Charge</u>
Field Charge	\$40	\$19
Service Termination Field Charge	\$40	\$19
Turn On Charge	\$40	\$19
Reconnection Charge	\$40	\$19
Reconnection Charge (After Hours)	\$80	\$95
Meter Test Charge	\$40	\$57
Returned Check Charge	\$30	\$9
Meter Reading Charge	\$40	\$19
Meter Resetting Charge	\$40	\$19
Service Investigation	\$40	\$19

Bracken District also proposed to increase its 5/8-inch meter tap-fee and provided updated cost justification sheets.¹⁴ Commission Staff reviewed the cost justification

¹² Case No. 2020-00141, *Electronic Application of Hyden-Leslie County Water District for an Alternative Rate Adjustment* (Ky. PSC Nov. 6, 2020), Case No. 2020-00167, *Electronic Application of Ohio County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 3, 2020), Case No. 2020-00196, *Electronic Application of West Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020), and Case No. 2020-00195, *Electronic Application of Southeast Daviess County Water District for an Alternative Rate Adjustment* (Ky. PSC Dec. 30, 2020).

¹³ Application, Attachment Q, Revenues from Nonrecurring Charges and Meter Connection Fees.

¹⁴ Application, Attachment M, Cost Justification Sheet for Proposed Standard Meter Connection Rate.

information that was provided by Bracken District and agrees with its proposed charge of \$1,380.

PRO FORMA OPERATING STATEMENT

Bracken District's Pro Forma Operating Statement for the test year ended December 31, 2020, as determined by Commission Staff, appears below.

	Test Year	Adjustment	(Ref.)	Pro Forma
Operating Revenues				
Sales of Water	\$ 1,693,099	\$ (22,191)	(A)	\$ 1,670,908
Late Payment Penalties		28,416	(B)	28,416
	55,324	(4,559)	(B)	
		(6,952)	(C)	
Other Water Revenues	<u> </u>	<u>(37,572)</u>	(D)	<u>6,241</u>
Total Operating Revenues	<u>1,748,423</u>	<u>(42,858)</u>		<u>1,705,565</u>
Operating Expenses				
Operation and Maintenance Expenses				
Salaries and Wages - Employees	210,699	8,058	(E)	218,757
Salaries and Wages - Commissioners	18,200			18,200
Employee Pensions and Benefits	44,919	(6,943)	(F)	37,976
Purchased Water	419,931	(46,811)	(G)	373,120
Purchased Power for Pumping	45,855	(1,462)	(G)	44,393
Water Testing	4,147			4,147
Materials and Supplies	94,790			94,790
Contractual Services	93,503			93,503
Transportation Expense	11,525			11,525
Insurance	32,536	(465)	(H)	32,071
Regulatory Commission Expense	3,546	682	(I)	4,228
Miscellaneous Expense	<u>299</u>			<u>299</u>
Total Operation and Maintenance Expenses	979,950	(46,941)		933,009
Taxes Other Than Income	16,759	1,353	(E)	18,112
Amortization		5,894	(J)	5,894
Depreciation	<u>309,868</u>	<u>69,852</u>	(K)	<u>379,720</u>
Total Operating Expenses	<u>1,306,577</u>	<u>30,158</u>		<u>1,336,735</u>
Net Operating Income	441,846	(73,016)		368,830
Interest Income	39,194			39,194
Nonutility Income	<u>7,466</u>			<u>7,466</u>
Income Available to Service Debt	<u>\$ 488,506</u>	<u>\$ (73,016)</u>		<u>\$ 415,490</u>

(A) Billing Analysis. In its application, Bracken District included a billing analysis listing the water usage and water sales revenue for the 12-month test period.¹⁵ During the test year, Bracken District increased its service rates through a purchase water adjustment (PWA), due to an increase from its supplier.¹⁶ Bracken District proposed an adjustment of \$2,946 to Metered Water Sales to reflect the increased rate due to the PWA. However, Bracken District did not make an adjustment to reflect the difference between metered water sales revenue shown in the 2020 Annual Report and metered water sales revenue generated from the billing analysis. Bracken District's billing analysis generates a revenue from metered water sales at the current rates applied to the billed gallons for the 12-month test period of \$1,670,908. In the 2020 Annual Report, Total Metered Water Sales Revenue reported for the test year is \$1,693,099.¹⁷ Based on the following, Commission Staff decreased test-year water sales revenue by \$22,191 to reflect the revenues from water rates generated by the billing analysis.

(B) Late Payment Penalties. In its application, Bracken District proposed to reduce its nonrecurring charges by \$4,559 to reclass Late Payment Penalties into its own category.¹⁸ As part of its reclass adjustment, Bracken District proposed to increase Late Payment Penalties by an additional \$23,857 to reflect the three-year average of late payment penalties collected in the calendar years 2017 through 2019 to account for the moratorium regarding the collections of late payment fees due to the COVID-19

¹⁵ Application, Attachment E-2, Billing Analysis: January–December 2020 (Current Rates).

¹⁶ Case No. 2021-00228, *Electronic Purchased Water Adjustment Filing of Bracken County Water District* (Ky. PSC June 8, 2021).

¹⁷ 2020 Annual Report at 49, Total Metered Sales \$1,627,968 and Sales for Resale \$65,131.

¹⁸ Application, Exhibit C, Statement of Adjusted Operations, Adjustment D.

pandemic. As a result of the two adjustments, Bracken District proposed to include pro forma Late Payment Penalties of \$28,416.¹⁹ Commission Staff accepts the proposed pro forma amounts as a reasonable proxy for the test year Late Payment Penalties.

(C) Nonrecurring Charges. In its application, Bracken District proposed to increase Other Water Revenues by \$2,547 to account for the moratorium described above and to normalize the revenues received from reconnections in the test year.²⁰ Bracken District proposed to use the three-year average of the reported income from Other Water Revenues for the years 2017 through 2019. Commission Staff does not agree with this adjustment as reconnection fees are not separated from other revenues in this category and do not necessarily create a typical revenue stream. As discussed above, Commission Staff adjusted certain nonrecurring charges using the updated Cost Justification Sheets.²¹ Commission Staff's adjustments to the Nonrecurring Charges results in a decrease to Other Water Revenues and an increase to the total revenue requirement of \$6,952 as shown below.

¹⁹ Application, Exhibit C, Statement of Adjusted Operations, Adjustment C.

²⁰ Application, Exhibit C, Schedule of Adjusted Operations, Adjustment D.

²¹ Application, Attachment Q, Revenues from Nonrecurring Charges and Meter Connection Fees.

<u>Charge</u>	<u>No. of Occurrences</u>	<u>Current NRC</u>	<u>Adjusted NRC</u>	<u>Pro Forma</u>
Field Charge	6	\$40	\$19	\$ 114
Service Termination Field Charge	4	40	19	76
Turn On Charge	242	40	19	4,598
Reconnection Charge	57	40	19	1,083
Reconnection Charge (After Hours)	2	80	95	190
Meter Test Charge	0	40	57	-
Returned Check Charge	20	30	9	180
Meter Reading Charge	0	40	19	-
Meter Resetting Charge	0	40	19	-
Service Investigation	0	40	19	-
				6,241
Pro Forma Test Year NRC Revenue				6,241
Less: Test Year NRC Revenue				13,193
Adjustment				\$ (6,952)

(D) Tap Fees. In its application, Bracken District proposed to decrease Other Water Revenues by \$37,572 to reflect Tap Fees that were assessed during the test period that should properly have been recorded as contributed capital.²² Commission Staff agrees with the proposed adjustment and reduced pro forma Other Water Revenue by \$37,572.

(E) Salaries and Wages - Employees. In its application, Bracken District proposed to increase Salaries and Wages by \$8,058 to reflect changes in personnel and increases in pay rates after the test year.²³ In addition, Bracken District proposed a corresponding adjustment to Taxes Other Than Income of \$1,353 to reflect increased taxes due increased pro forma Salaries and Wages.²⁴ Commission Staff reviewed the

²² Application, Exhibit C, Statement of Adjusted Operations, Adjustment D.

²³ Application, Exhibit C, Statement of Adjusted Operations, Adjustment E.

²⁴ Application, Exhibit C, Statement of Adjusted Operations, Adjustment N.

corresponding attachment that was provided with Bracken District's adjustment²⁵ and agrees that the proposed increase fairly represents total Salaries and Wages expense and corresponding payroll taxes going forward. Accordingly, Commission Staff increased pro forma Salaries and Wages by \$8,058 and Taxes Other than Income by \$1,353.

(F) Employee Pensions and Benefits. In its application, Bracken District proposed to decrease Employee Pensions and Benefits by \$6,943 based on the net result of the current health insurance premiums being charged to Bracken District and to reduce premiums paid by Bracken District by the Bureau of Labor Statistics national average for single coverage based on recent Commission decisions regarding this issue.²⁶ Commission Staff has examined the workpapers provided in the application and agrees with the calculation as proposed by Bracken District.²⁷ Accordingly, Commission Staff decreased Employee Pensions and Benefits by \$6,943 in the Pro Forma calculation.

(G) Water Loss. Bracken District's test year water loss was 15.99 percent.²⁸ Commission regulation 807 KAR 5:066, Section 6(3), limits water loss to 15 percent for ratemaking purposes unless the Commission finds an alternative level is reasonable. In its application, Bracken District proposed two adjustments to its Purchased Water. First, Bracken District explained that there was an error in the reporting of purchased water expense in the test period, and therefore an adjustment of \$33,801 was required to reflect actual purchased water.²⁹ The second adjustments were to reduce Purchased Water

²⁵ Application, Excel Spreadsheet entitled, "01_RateCalculationWorkbook.xlsx."

²⁶ Application, Exhibit C, Statement of Adjusted Operations, Adjustment F.

²⁷ Application, Excel Spreadsheet entitled, "01_RateCalculationWorkbook.xlsx."

²⁸ Annual Report at 57 and 58.

²⁹ Application, Exhibit C, Statement of Adjusted Operations, Adjustment G.

expense \$13,010, and Purchased Power expense \$1,462 to reflect the limitation stated in the regulation.³⁰ Commission Staff agrees that Bracken District's proposed adjustments properly apply the regulation and also bring the balance of purchased water to the actual cost of water purchased in the test period, and therefore reduced pro forma Purchased Water expense by \$46,811 and Purchased Power expense by \$1,462.

(H) Insurance Expense. In its application, Bracken District proposed to decrease Insurance expense by \$465 to reflect decreased premiums for property and crime insurance, liability insurance, and workers compensations and employer's liability insurance in 2021.³¹ Commission Staff reviewed the invoices provided with the application³² and agrees that the pro forma adjustment fairly represents Insurance expense going forward. Therefore, Commission Staff reduced pro forma Insurance expense by \$465.

(I) Regulatory Commission Assessment. In its application, Bracken District proposed to increase Regulatory Commission Assessment fess by \$65 to reflect the increase in the PSC Assessment due to the adjustment of test-period revenues.³³ Commission Staff agrees that the PSC Assessment will increase commensurate with the increase/decrease in revenues after the current rate case but disagrees with the amount proposed by Bracken District. As a practical matter, the increase to the revenue requirement recommended by Commission Staff before any adjustment to the Regulatory

³⁰ Application, Exhibit C, Statement of Adjusted Operations, Adjustment G and H.

³¹ Application, Exhibit C, Statement of Adjusted Operations, Adjustment I.

³² Application, Exhibit T.

³³ Application, Exhibit C, Statement of Adjusted Operations, Adjustment J.

Commission Assessment is \$341,027. When the assessment rate is applied, it results in an increase to the assessment fee of \$682.³⁴ Commission Staff applied the recalculated assessment fee in pro forma operations, and therefore increased Regulatory Commission Expense by \$682.

(J) Amortization of Rate Case Expense. In its application, Bracken District proposed to increase pro forma expenses \$3,000 to amortize its estimated cost of expenses incurred in the preparation of this case.³⁵ Bracken District supplemented the record with a breakdown and invoices which support rate case expenses to date of \$17,683.³⁶ Commission Staff believes rate case expense should be included in pro forma expenses to the extent it is known and measurable. Therefore, Commission Staff believes the updated rate case expense of \$17,683 should be included, and further recommends an amortization period of three years be applied. Therefore, Commission Staff increased pro forma Amortization \$5,894 to include these elements.

(K) Depreciation. In its application, Bracken District proposed to increase Depreciation expense \$69,852 to reflect additional depreciation expense for a completed Water Systems Improvement Project approved for a certificate of public convenience and necessity in Case No. 2018-00352³⁷ and was placed into service in March 2021.

³⁴ Required Revenue Increase \$341,027 x Regulatory Assessment Fees .002 = \$682.

³⁵ Application, Exhibit C, Statement of Adjusted Operations, Adjustment M.

³⁶ Bracken District's Response to Staff's First Request, Item 4 and Bracken District's Supplemental Response to Staff's First Request, Item 4 (filed April 20, 2022).

³⁷ Case No. 2018-00352, *Application of Bracken County Water District for a Certificate of Public Convenience and Necessity to Construct a Water Improvements Project and an Order Authorizing the Issuance of Securities and Increase Rates Pursuant to KRS 278.023* (Ky. PSC Nov. 7, 2018).

Commission Staff agrees that this is a known and measurable change to the test period and therefore included this adjustment in Pro Forma operations.

OVERALL REVENUE REQUIREMENT AND
REQUIRED REVENUE INCREASE

The Commission has historically applied a DSC method to calculate the Overall Revenue Requirement of water districts and water associations. This method allows for recovery of (1) cash-related pro forma operating expenses; (2) recovery of depreciation expense, a non-cash item, to provide working capital;³⁸ (3) the average annual principal and interest payments on all long-term debts; and (4) working capital that is in addition to depreciation expense.

³⁸ The Kentucky Supreme Court has held that the Commission must permit a water district to recover its depreciation expense through its rates for service to provide internal funds for renewing and replacing assets. See *Public Serv. Comm'n of Kentucky v. Dewitt Water Dist.*, 720 S.W.2d 725, 728 (Ky. 1986). Although a water district's lenders require that a small portion of the depreciation funds be deposited annually into a debt reserve/depreciation fund until the account's balance accumulates to a required threshold, neither the Commission nor the Court requires that revenues collected for depreciation be accounted for separately from the water district's general funds or that depreciation funds be used only for asset renewal and replacement. The Commission has recognized that the working capital provided through recovery of depreciation expense may be used for purposes other than renewal and replacement of assets. See Case No. 2012-00309, *Application of Southern Water and Sewer District for an Adjustment in Rates Pursuant to the Alternative Rate Filing Procedure for Small Utilities* (Ky. PSC Dec. 21, 2012).

	Bracken District	Commission Staff	
Pro Forma Operating Expenses	\$ 1,333,092	\$ 1,336,735	
Plus: Average Annual Principal and Interest Payments	590,098	607,277	(1)
Additional Working Capital	118,020	121,455	(2)
Overall Revenue Requirement	2,041,210	2,065,468	
Less: Other Operating Revenue	(44,156)	(6,241)	
Interest Income	(39,194)	(39,194)	
Nonutility Income	(7,466)	(7,466)	
Revenue Required from Rates	1,950,394	2,012,567	
Less: Pro Forma Present Rate Service Revenues	(1,696,045)	(1,670,908)	
Required Revenue Increase	\$ 254,349	\$ 341,659	
Percentage Increase	15.00%	20.45%	

1. Average Annual Principal and Interest Payments. At the time of Commission Staff's review, Bracken District had one bond payable to the United States Department of Agriculture Rural Development (RD), four loans payable to the Kentucky Infrastructure Authority (KIA), and two loans payable to the Kentucky Rural Water Finance Corporation (KRWFC). In its application, Bracken District requested recovery of the average annual principal and interest on its indebtedness based on a five-year average of the annual principal, and interest and fee payments for the years 2022 through 2026.³⁹ Bracken District noted in its application⁴⁰ that as of the date of its filing, a request for a Certificate of Public Convenience and Necessity (CPCN) with attached financing was pending before the Commission.⁴¹ As of the date of this report, the final Order was issued

³⁹ Application, Exhibit D and Exhibit I.

⁴⁰ Application, Exhibit I.

⁴¹ Case No. 2021-00467, *Electronic Application of the Bracken County Water District for the Issuance of a Certification of Public Convenience and Necessity to Construct a Water System*

in that case approving the proposed financing arrangement.⁴² Commission Staff believes that the average principal and interest payments for the years 2022 through 2026 should be included in the revenue requirement in this case. Therefore, Commission Staff recalculated the five-year average principal and interest payments for the years 2022 through 2026 and adjusted the revenue requirement as shown below:

Year	Annual Debt Payment
2022	\$ 625,745
2023	622,024
2024	635,291
2025	577,700
2026	<u>575,625</u>
Total	3,036,385
Divide by: 5 years	<u>5</u>
Average Annual Principal and Interest Payment	<u><u>\$ 607,277</u></u>

2. Additional Working Capital. The DSC method, as historically applied by the Commission, includes an allowance for additional working capital that is equal to the minimum net revenues required by a district's lenders that are above its average annual debt payments. In its application, Bracken District requested recovery of an allowance for working capital that is equal to 120 percent of its average annual debt payments for its long-term debt with the RD at the time of its application. RD requires that Bracken

Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to the Provisions of KRS 278.020, KRS 278.300, and 807 KAR 5:001 (filed on Dec. 17, 2021).

⁴² Case No. 2021-00467, *Electronic Application of the Bracken County Water District for the Issuance of a Certification of Public Convenience and Necessity to Construct a Water System Improvements Project and an Order Authorizing the Issuance of Securities Pursuant to the Provisions of KRS 278.020, KRS 278.300, and 807 KAR 5:001* (Ky. PSC Feb. 4, 2022) at 9, ordering paragraph 3.

District charge rates that produce net revenues that are at least 120 percent of its average annual debt payments. Following the Commission’s historic practice, Commission Staff recalculated the allowance for Additional Working Capital to include the additional debt service discussed above. The calculation is shown below:

Average Annual Principal and Interest	\$ 607,277
Times: DSC Coverage Ratio	<u>120%</u>
Total Net Revenues Required	728,732
Less: Average Annual Principal and Interest Payments	<u>(607,277)</u>
Additional Working Capital	<u>\$ 121,455</u>

Signatures

/s/ Ariel Miller

Prepared by: Ariel Miller
Revenue Requirement Branch
Division of Financial Analysis

/s/ Jason Green

Prepared by: Jason Green
Rate Design Branch
Division of Financial Analysis

APPENDIX

APPENDIX TO COMMISSION STAFF'S REPORT OF THE KENTUCKY PUBLIC SERVICE COMMISSION IN CASE NO. 2021-00415 DATED JUN 02 2022

The following rates and charges are prescribed for the customers in the area served by Bracken County Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect under the authority of the Commission prior to the effective date of this Order.

Monthly Water Rates

PHASE 1

First	2,000 Gallons	\$30.81 Minimum Bill
Next	38,000 Gallons	0.01174 per gallon
Over	40,000 Gallons	0.00931 per gallon
Wholesale Rate		0.00447 per gallon
Bulk Sales Loading Station		0.01050 per gallon

PHASE 2

For Service Rendered One Year After Phase 1 Rates

First	2,000 Gallons	\$33.64 Minimum Bill
Next	38,000 Gallons	0.01281 per gallon
Over	40,000 Gallons	0.01016 per gallon
Wholesale Rate		0.00487 per gallon
Bulk Sales Loading Station		0.01150 per gallon

Nonrecurring Charges

5/8- x 3/4-Inch Water Tap On	\$ 1,380.00
Field Charge	\$ 19.00
Service Termination Charge	\$ 19.00
Turn-On Charge	\$ 19.00

Reconnection Charge	\$ 19.00
Reconnection Charge (After Hours)	\$ 95.00
Meter Test Charge	\$ 57.00
Returned Check Charge	\$ 9.00
Meter Reading Charge	\$ 19.00
Meter Resetting Charge	\$ 19.00
Service Investigation	\$ 19.00

*Diana Moran
Office Manager
Bracken County Water District
P. O. Box 201
Brooksville, KY 41004

*Bracken County Water District
1324 Brooksville Germantown Road
P. O. Box 201
Brooksville, KY 41004

*Gerald E Wuetcher
Attorney at Law
STOLL KEENON OGDEN PLLC
300 West Vine Street
Suite 2100
Lexington, KENTUCKY 40507-1801

*Anthony Habermehl
Chairman
Bracken County Water District
P. O. Box 201
Brooksville, KY 41004